

EUROPEAN MICRO HOLDINGS INC  
Form 10KSB  
October 10, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-KSB**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended June 30, 2007**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**EUROPEAN MICRO HOLDINGS, INC.**

(Exact name of registrant as specified in charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**65-0803752**  
(IRS Employer  
Identification Number)

**2631 East Oakland Park Blvd, Suite 201, Ft. Lauderdale, Florida 33306**

(Address of principal executive offices) (Zip Code)

**Issuer's telephone number: (954) 524-1888**

**Securities registered pursuant to Section 12(g) of the Act:**

**Title of each class None**

**Name of each exchange on which registered None**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share**

**Check whether the Issuer (1 ) filed all reports required to be filed by section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.**

**1. Yes o No x      2. Yes o No x**

**Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB x**

**State Issuer's Revenues for its most recent fiscal year:\_\_\_\_\_**

**State the aggregate market value of the voting stock held by nonaffiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days.**

**The market value of shares held by nonaffiliates is \$100,618 based on the bid price of \$0.06 per share at September 30, 2007.**

**As of September 30, 2007, the Company had 5,029,667 shares of common stock issued and outstanding.**

**DOCUMENTS INCORPORATED BY REFERENCE**

**None**

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS.

#### GENERAL DESCRIPTION OF BUSINESS

*Forward-Looking Statements and Associated Risks. This filing contains forward-looking statements, including statements regarding European Micro Holdings, Inc.'s ("European Micro" or the "Company") projections on the amount and timing of liquidating distribution. In addition, when used in this filing, the words "believes," "anticipates," "intends," "anticipation of," "expects," and similar words are intended to identify certain forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, many of which are beyond the Company's control. Actual results could differ materially from these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. The Company does not undertake any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.*

*Unless the context otherwise requires and except as otherwise specified, references herein to "European Micro" or the "Company" include European Micro Holdings, Inc. and its five wholly-owned subsidiaries, European Micro Plc, a company organized under the laws of the United Kingdom ("European Micro UK"), Nor'Easter Micro, Inc., a Nevada corporation ("Nor'Easter"), Colchester Enterprise Pte. Ltd., a company organized under the laws of Singapore ("Colchester"), American Micro Computer Center, Inc., a Florida corporation ("American Micro"), Engenis.com Ltd., a company organized under the laws of the United Kingdom ("Engenis"), (collectively, the five wholly-owned subsidiaries are referred to as the "Subsidiaries").*

#### Overview

The Company was an independent distributor of microcomputer products, including personal computers, memory modules, disc drives and networking products, to customers mainly in Western Europe and to customers and related parties in the United States and Asia. The Company's customers consisted of value-added resellers, corporate resellers, retailers, direct marketers and distributors. The Company generally did not sell to end-users. The Company monitored the geographic pricing strategies related to such products, currency fluctuations and product availability in an attempt to obtain inventory at favorable prices from other distributors, resellers and wholesalers.

In July 2001, management approved a plan for the liquidation and eventual sale or dissolution of the Company. Accordingly, we have been engaged in an ongoing orderly liquidation of our assets. With the exception of accounting and other professional and administrative expenses, the Company did not have any operations for the years June 30, 2007 and 2006. Management is currently marketing the Company for sale. As of September 30, 2007, liquidation is almost complete with the only asset being cash in the approximate amount of \$598.

The Company had suffered operating losses in fiscal 2000 and 2001. Ongoing legal costs associated with the litigation related to Big Blue Europe, the costs associated with the Company's electronic commerce strategy, increases in general overhead costs, and increased interest expense due primarily to increased borrowings, coupled with decreasing sales volumes and gross profit margins, negatively impacted operating results. These factors resulted in the noncompliance of the financial covenants of the Company's loan agreements. Due to these operating results and the covenant violations, the lender on the American Micro and Nor'Easter lines of credit and the European Micro Holdings, Inc. term loan demanded repayment of the Nor'Easter line of credit before June 15, 2001 and the American Micro line of credit and the European Micro Holdings term loan by August 15, 2001. As a result, during April 2001, the Company decided to cease operations at Nor'Easter and during June 2001, the Company decided to cease operation at

Colchester. The Nor'Easter line of credit was repaid on June 15, 2001. The American Micro line of credit was repaid during May 2001. The European Micro Holdings term loan was repaid on August 20, 2001.

The contingent earn-out payment of the American Micro acquisition relating to two times the after tax earnings for calendar year 2000 of approximately \$1,839,000 was due to the former American Micro shareholders. As a result of financial restrictions imposed by the lender on the American Micro and Nor'Easter lines of credit, on February 20, 2001, the Company delivered two Secured Promissory Notes ("Notes") to the former American Micro shareholders in the original amount of \$823,712 each. The Notes called for monthly principal payments of \$50,000, plus interest at 8% commencing April 1, 2001, subject to financial covenant restrictions. Each Note was due in full within (30) days of the satisfaction of the American Micro and Nor'Easter lines of credit. On July 15, 2001, the Company notified the former American Micro shareholders that it would be unable to meet its obligations under each Note. After the repayment of the American Micro and Nor'Easter lines of credit along with the repayment of the European Micro Holdings, Inc. term loan, the Company was no longer restricted from performing its obligations to the American Micro shareholders. On August 22, 2001 the former American Micro shareholders demanded full payment of the Notes. On September 1, 2001 the notes payable to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders.

Another factor that negatively impacted the Company's liquidity was the terms of the borrowing arrangements of European Micro UK. European Micro UK's borrowing capacity was subject to termination by the lender at the lender's sole discretion. During August, 2001 the lender on the European Micro UK's line of credit demanded repayment. European Micro UK was able to repay the line of credit with a loan from a significant shareholder.

Hence, with the complete termination of all lines of credit available to the Company, the closures of Nor'easter and Colchester and the loss of American Micro, the Company had no alternative but to proceed with a complete liquidation of all assets.

European Micro Holding's headquarters are located at 2631 East Oakland Park Blvd, Suite 201, Ft. Lauderdale, Florida 33306, and its telephone number is (954) 524-1888.

**Industry**

None

**Strategy**

None

**Products and Customers**

None

**Sources of Supply**

None

**Sales and Marketing**

None

**Competition**

None

**Employees**

On September 30, 2007 the Company had three employees.

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**ITEM 2. DESCRIPTION OF PROPERTIES.**

The corporate headquarters of European Micro Holdings, Inc. is located in Ft Lauderdale, Florida. During the liquidation process, all leased properties have been vacated and the lease expired or a settlement was reached with the lessor.

**ITEM 3. LEGAL PROCEEDINGS.**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

None.

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**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The Company's shares of Common Stock began trading on the Nasdaq National Market on June 12, 1998, under the symbol "EMCC." On April 20, 2001, the Company received a Nasdaq Staff Determination Letter stating that the Company's common stock failed to maintain a minimum market value of public float of \$5.0 million. As a result, the Company's common stock was delisted from the Nasdaq Stock Market on April 27, 2001. The Company's common stock is now quoted on the over-the-counter bulletin board.

The Company's high and low bid prices by quarter during fiscal 2007 and 2006 are presented as follows:

	<b>Fiscal Year 2007</b>			
		<b>High</b>		<b>Low</b>
First Quarter (July 2006 to September 2006)	\$	0.03	\$	0.03
Second Quarter (October 2006 to December 2006)		0.07		0.03
Third Quarter (January 2007 to March 2007)		0.08		0.07
Fourth Quarter (April 2007 to June 2007)		0.07		0.04

  

	<b>Fiscal Year 2006</b>			
		<b>High</b>		<b>Low</b>
First Quarter (July 2005 to September 2005)	\$	0.03	\$	0.03
Second Quarter (October 2005 to December 2005)		0.03		0.03
Third Quarter (January 2006 to March 2006)		0.03		0.03
Fourth Quarter (April 2006 to June 2006)		0.03		0.03

On September 30, 2007, the Company had approximately 117 shareholders of record.

**Dividends**

During the fiscal year ended June 30, 2007, no dividends were declared or paid. During fiscal year 2006, the Company declared a dividend in the aggregate amount of \$200,000 on the outstanding shares of Common Stock of record as of August 1, 2005. The dividend was paid on September 1, 2005.

**Recent Sales of Unregistered Securities**

None.

**ITEM 6. PLAN OF OPERATIONS.**

The following information should be read in conjunction with the consolidated financial statements of the Company and the notes thereto appearing elsewhere in this filing.

Certain statements within this Item and throughout this Annual Report on Form 10-KSB and the documents incorporated herein are "forward-looking statements" as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected.



**Critical Accounting Estimates**

The Company's only critical accounting estimate pertains to fair value measurement in applying the liquidation basis of accounting. Management's estimate of fair value is based upon the actual amounts collected from the liquidation of the assets and liabilities. Management does not believe these estimates could significantly change in the future.

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## **Recent Accounting Pronouncements**

### *Effects of Prior Year Misstatements*

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 requires that registrants quantify errors using both a balance sheet (iron curtain) approach and an income statement (rollover) approach then evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company has adopted the bulletin during its fiscal year ending June 30, 2007. The adoption did not have a material effect on results of operations, financial position, or cash flows.

### *Accounting for Income Taxes*

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). —an interpretation of FASB Statement No. 109, Accounting for Income Taxes. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. At the date of adoption, and as of June 30, 2007, the Company does not have a liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2002. During the periods open to examination, the Company has net operating loss and tax credit carry forwards for U.S. federal and state tax purposes that have attributes from closed periods. Since these net operating losses and tax credit carry forwards may be utilized in future periods, they remain subject to examination.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of June 30, 2007, the Company has no accrued interest or penalties related to uncertain tax positions.

### *Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position, or cash flows.

### *Fair Value Option for Financial Assets and Financial Liabilities*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“Statement 159”). Statement 159 allows companies to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value (the “fair value option”). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, all unrealized gains or losses in fair value for that instrument shall be reported in earnings at each subsequent reporting date. Statement 159 is effective for fiscal years that begin after November 15, 2007, which for us will be our fiscal 2008. We are currently evaluating the impact Statement 159 will have on our consolidated financial position, results of operations and cash flows.

## Liquidity and Capital Resources

The Company's primary cash requirements were for accounting and other professional and administrative expenses which were funded by shareholder loans. Majority shareholders, John B. Gallagher and Harry D. Shields have each advanced \$20,000 and \$59,000 respectively.

*General.* The Company had suffered operating losses in fiscal 2000 and 2001. Ongoing legal costs associated with the litigation related to Big Blue Europe, the costs associated with the Company's electronic commerce strategy, increases in general overhead costs, and increased interest expense due primarily to increased borrowings, coupled with decreasing sales volumes and gross profit margins, negatively impacted operating results. These factors resulted in the noncompliance of the financial covenants of the Company's loan agreements. Due to these operating results and the covenant violations, the lender on the American Micro and Nor'Easter lines of credit and the European Micro Holdings, Inc. term loan demanded repayment of the Nor'Easter line of credit before June 15, 2001 and the American Micro line of credit and the European Micro Holdings term loan by August 15, 2001. As a result, during April 2001, the Company decided to cease operations at Nor'Easter and during June 2001, the Company decided to cease operation at Colchester. The Nor'Easter line of credit was repaid on June 15, 2001. The American Micro line of credit was repaid during May 2001. The European Micro Holdings term loan was repaid on August 20, 2001.

The contingent earn-out payment of the American Micro acquisition relating to two times the after tax earnings for calendar year 2000 of approximately \$1,839,000 was due to the former American Micro shareholders. As a result of financial restrictions imposed by the lender on the American Micro and Nor'Easter lines of credit, on February 20, 2001, the Company delivered two Secured Promissory Notes ("Notes") to the former American Micro shareholders in the original amount of \$823,712 each. The Notes called for monthly principal payments of \$50,000, plus interest at 8% commencing April 1, 2001, subject to financial covenant restrictions. Each Note was due in full within (30) days of the satisfaction of the American Micro and Nor'Easter lines of credit. On July 15, 2001, the Company notified the former American Micro shareholders that it would be unable to meet its obligations under each Note. After the repayment of the American Micro and Nor'Easter lines of credit along with the repayment of the European Micro Holdings, Inc. term loan, the Company was no longer restricted from performing its obligations to the American Micro shareholders. On August 22, 2001 the former American Micro shareholders demanded full payment of the Notes. On September 1, 2001 the notes payable to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders.

Another factor that negatively impacted the Company's liquidity was the terms of the borrowing arrangements of European Micro UK. European Micro UK's borrowing capacity was subject to termination by the lender at the lender's sole discretion. During August, 2001 the lender on the European Micro UK's line of credit demanded repayment. European Micro UK was able to repay the line of credit with a loan from a significant shareholder.

Hence, with the complete termination of all lines of credit available to the Company, the closures of Nor'easter and Colchester and the loss of American Micro, the Company had no alternative but to proceed with a complete liquidation of all assets. At June 30, 2007, the Company had \$142 of cash which is a \$22,000 decrease from the June 30, 2006 amount of \$22,000. The decrease was due to payment of accounting and administrative expenses which are being funded by shareholder loans. On July 12, 2005, the Company declared a cash dividend in the aggregate amount of \$200,000 on the issued and outstanding shares of Common Stock held by shareholders of record as of August 1, 2005. The dividend was paid on September 1, 2005. As of September 30, 2007, liquidation is almost complete with the only asset being cash in the approximate amount of \$598.

## **Currency Risk Management**

*Reporting Currency.* European Micro Holding's reporting and functional currency, as defined by Statement of Financial Accounting Standards No. 52, was the U.S. dollar.

## **ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The consolidated financial statements of the Company appear beginning at page F-1.

## **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

## **ITEM 8A. CONTROLS AND PROCEDURES**

### **(A) Evaluation of Disclosure Controls and Procedures:**

The Company's Principal Executive Officer and Principal Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report, have concluded that as of such date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company that is required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and accumulated and communicated to the Company's management, including its Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

### **(B) Changes in Internal Controls:**

In connection with the evaluation of the Company's internal controls during the period covered by this report, the Company's Principal Executive Officer and Principal Financial Officer have determined that there are no changes to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially effect, the Company's internal controls over financial reporting.

## **ITEM 8B. OTHER INFORMATION**

None.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The Board of Directors of the Company consists of six seats, divided into three classes of two members each. The terms of office of the three classes of directors (Class I, Class II and Class III) end in successive years. Currently there are four vacancies, two in Class I and two in Class II. Pursuant to the Company's bylaws, a majority of the remaining two members of the Board may appoint successors to fill the vacancies.

#### Class III Directors—Present Term

**John B. Gallagher**  
Age 52

Mr. Gallagher is co-founder of the Company and European Micro Plc, a wholly-owned subsidiary of the Company. He has served as Co-Chairman, Co-President and Director of the Company since it was formed in December 1997. Mr. Gallagher has also served as Co-Chairman and Director of European Micro Plc since it was formed in 1991 and as President, Secretary, Treasurer and Director of American Micro Computer Center, Inc., a computer distributor, since 1999. Between 1989 and 1999, Mr. Gallagher served as President of American Surgical Supply Corp. of Florida d/b/a American Micro Computer Center until it was acquired by the Company in 1999 and changed its name to American Micro Computer Center, Inc. He was a Director and President of Ameritech Exports, a computer distributor, from 1992 to 1997. Mr. Gallagher is an attorney with a Bachelor of Arts and a Juris Doctorate from the University of Florida.

**Harry D. Shields**  
Age 57

Mr. Shields is co-founder of the Company and European Micro Plc, a wholly-owned subsidiary of the Company. He has served as Co-Chairman, Co-President and Director of the Company since it was formed in December 1997. Mr. Shields has also served as Co-Chairman and Director of European Micro Plc since it was formed in 1991. Mr. Shields had been Vice President and a Director of American Micro Computer Center, Inc. from its acquisition in 1999 to August 31, 2001. He served as President of Technology Express, a computer distributor, from 1986 to 2003, and was a Director of Ameritech Exports, a computer distributor, from 1992 to 1997. Mr. Shields has a Bachelor of Arts from DePaul University and a Masters of Science from the University of Tennessee.

#### Executive Officer

In addition to John B. Gallagher and Harry D. Shields, who are listed above, the following individual is an executive officer of the Company:

**Jay Nash**

Age 45

Mr. Nash has been Chief Financial Officer, Controller, Secretary and Treasurer of the Company since January 1998. He had also been Assistant Secretary and a Director of American Micro Computer Center, Inc. since 1999. He had served as Vice President of Technology Express, Inc., a computer distributor, since 1992 and was an accountant with Jacques Miller, a real estate firm, from 1986 to 1992 and KPMG LLP, an accounting firm, from 1983 to 1986. Mr. Nash is a Certified Public Accountant with a Bachelor of Science in Accounting from the University of Tennessee.

**ITEM 10. EXECUTIVE COMPENSATION.****Executive Compensation****Summary Compensation Table**

The following table sets forth compensation information for the three fiscal years ended June 30, 2007 for the Company's Chief Executive Officers and the one other executive officers of the Company.

Name and Principal Position(s)	Fiscal Year	Annual Compensation			Long-Term Compensation	
		Salary	Bonus	Other Annual Compensation	No. of Stock Options Granted	All Other Compensation
John B. Gallagher Co-Chairman and Co-President	2007	\$ 0	\$ 0	\$ 0	0	\$ 0
	2006	0	0	0	0	0
	2005	\$ 175,000	0	0	0	0
Harry D. Shields Co-Chairman and Co-President	2007	\$ 0	\$ 0	\$ 0	0	\$ 0
	2006	0	0	0	0	0
	2005	\$ 125,000	0	0	0	0
Jay Nash Chief Financial Officer, Controller, Secretary and Treasurer	2007	\$ 0	\$ 0	\$ 0	0	\$ 0
	2006	0	0	0	0	0
	2005	\$ 85,000	0	0	0	0

**Option Grants in Fiscal 2007**

During Fiscal 2007, the Company did not grant options to any of the named executive officers.

**Option Exercises and Values for Fiscal 2007**

There are no outstanding options.

**Employment Agreements**

**Employment Agreements with the Chief Executive Officers.** The Company entered into five-year employment agreements with each of Messrs. Gallagher and Shields. Pursuant to the agreements, each executive was employed as Co-Chairman and Co-President of the Company. These agreements were effective as of January 1, 1998, and each provided for initial annual base salaries of \$175,000, plus annual cost of living adjustments and other increases to be determined at any time or from time to time by the Board of Directors or any committee thereof. On January 31, 1999, the annual base salaries for each of Messrs. Gallagher and Shields were increased to \$275,000. Effective May 1, 2000, Messrs. Gallagher and Shields voluntarily decreased their annual base salaries from \$275,000 to \$225,000. Effective July 1, 2001, Messrs. Gallagher and Shields voluntarily waived payment of their base salaries. Furthermore, effective August 31, 2001, Messrs. Gallagher and Shields terminated their employment agreements and permanently released



the Company from its obligation to pay past due compensation for the prior two months.

On July 1, 1999, Mr. Gallagher entered into a two-year employment agreement with American Micro Computer Center, Inc., a wholly-owned subsidiary of the Company ("American Micro"). Pursuant to this agreement, Mr. Gallagher was employed as President of American Micro. This agreement provided for an annual base salary of \$104,000, which was in addition to the annual base salary paid by the Company. Effective August 31, 2001, Mr. Gallagher terminated the employment agreement with American Micro.

*Employment Agreements with Other Named Executive Officers.* Jay Nash has never had an employment agreement with the Company.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

### Directors and Executive Officers

The following table shows the amount of common stock of the Company beneficially owned by the Company's directors, the executive officers named in the Summary Compensation Table below and by all directors and executive officers as a group as of September 30, 2007. Unless otherwise indicated, beneficial ownership is direct and the person indicated has sole voting and investment power. As of September 30, 2007, the Company had 5,029,667 shares of common stock outstanding.

Name and Address	Shares Beneficially Owned	Percent of Class
John B. Gallagher	1,750,000	34.8%
Harry D. Shields	1,602,696	31.9%
All officers and directors as a group	3,352,696	66.7%

### Section 16(a) Beneficial Ownership Reporting Compliance

Except as noted below, based upon a review of filings with the Securities and Exchange Commission, the Company believes that all of the Company's directors and executive officers complied during Fiscal 2007 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934.

### Stockholders Agreement

Pursuant to a stockholders agreement, each of Messrs. Gallagher and Shields have agreed to vote his shares in concert on all matters submitted to a vote of stockholders of the Company, including the election of all directors. In the event that either Messrs. Gallagher or Shields cannot agree to vote his shares in concert with the other, neither shall vote his shares.

### Code of Ethics

On August 28, 2006, our Board of Directors adopted a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees.

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On February 2, 1999, the Company's Board formed an Acquisition Committee consisting solely of independent directors to evaluate and determine whether the Company should acquire American Surgical Supply Corp. of Florida d/b/a American Micro Computer Center ("AMCC") and, if so, on what terms. The members of the committee were Kyle R. Saxon and Barrett Sutton. John B. Gallagher, who is a significant shareholder, Co-Chairman and Co-President of the Company, was the President and a Director of AMCC and owned fifty percent of its outstanding capital stock. Frank Cruz, who was the Chief Operating Officer of the Company, had been an employee of AMCC since 1994. He was an employee of American Micro, the newly-formed, wholly-owned subsidiary of the Company formed to acquire AMCC. The remaining fifty percent of AMCC's outstanding capital stock was owned by Mr. Gallagher's father. The committee's charter authorized it to take any action it deemed necessary to properly evaluate and determine whether the Company should acquire AMCC, including hiring independent advisors and ensuring that any such transaction

was fair to the Company and its stockholders from a financial point of view. The committee hired independent legal counsel and an independent financial advisor to render a fairness opinion. On July 1, 1999, the Company acquired AMCC.

During Fiscal 2005, the Company repaid money to Harry D. Shields. Harry D. Shields who is the Co-Chairman, Co-President, director and a significant stockholder of the Company, was also the owner of Technology Express, Inc. John B. Gallagher who is the Co-Chairman, Co-President, director and a significant stockholder of the Company, was also the owner of American Micro. In addition, Jay Nash, who is Chief Financial Officer, Controller, Secretary and Treasurer of the Company, had been an officer of Technology Express since 1992.

**ITEM 13. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.**

(a)(1)(2) **Financial Statements.** See index to consolidated financial statements and supporting schedules.

(a)(3) Exhibits.

<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
2.01	Agreement for the Acquisition of Sunbelt (UK) Limited by European Micro Plc dated October 26, 1998	Incorporated by reference as Exhibit 2.01 to the Company's Quarterly Report on Form 10-QSB filed on November 13, 1998.
2.02	Merger Agreement re: AMCC dated June 29, 1999	Incorporated by reference as Exhibit 2.02 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
2.03	Plan of 1999 Merger re: AMCC dated June 29, 1999	Incorporated by reference as Exhibit 2.03 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
2.04	Articles of Merger re: AMCC dated June 29, 1999	Incorporated by reference as Exhibit 2.04 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
2.05	Amendment to Merger Agreement re: AMCC dated October 2, 2000	Incorporated by reference as Exhibit 2.05 to the Company's Registration Statement on Form S-1 filed on October 27, 2000.
3.01	Articles of Incorporation	Incorporated by reference as Exhibit No. 3.01 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
3.02	Certificate of Amendment of Articles of Incorporation	Incorporated by reference as Exhibit 3.02 to the Company's Quarterly Report on Form 10-QSB filed on May 13, 1998.
3.03	Bylaws	Incorporated by reference as Exhibit No. 3.02 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
4.01	Form of Stock Certificate	Incorporated by reference as Exhibit No. 4.01 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
4.02	1998 Stock Incentive Plan	Incorporated by reference as Exhibit No. 4.02 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
4.03		

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	1998 Stock Employee Stock Purchase Plan	Incorporated by reference as Exhibit No. 4.03 to the Company's Registration Statement on Form S-1 filed on January 16, 1998.
4.04	Form of Lock-up Agreement	Incorporated by reference as Exhibit No. 4.04 to the Company's Registration Statement on Form S-1/A filed on March 24, 1998.
10.01	Form of Advice of Borrowing Terms with National Westminster Bank Plc	Incorporated by reference as Exhibit No. 10.01 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.

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<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.02	Invoice Discounting Agreement with Lombard NatWest Discounting Limited, dated November 21, 1996	Incorporated by reference as Exhibit No. 10.02 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.03	Commercial Credit Insurance, policy number 60322, with Hermes Kreditversicherungs-AG dated August 1, 1995	Incorporated by reference as Exhibit No. 10.03 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.04	Commercial Credit Insurance, policy number 82692, with Hermes Kreditversicherungs-AG dated August 1, 1995	Incorporated by reference as Exhibit No. 10.04 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.05	Consignment Agreement with European Micro Computer B.V., dated January 1996	Incorporated by reference as Exhibit No. 10.05 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.06	Stockholders' Cross-Purchase Agreement by and between Jeffrey Gerard Alnwick, Marie Alnwick, European Micro Plc and Big Blue Europe, B.V. dated August 21, 1997	Incorporated by reference as Exhibit No. 10.07 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.07	Trusteed Stockholders Cross-Purchase Agreement by and between John B. Gallagher, Harry D. Shields, Thomas H. Minkoff, Trustee of the Gallagher Family Trust, Robert H. True and Stuart S. Southard, Trustees of the Henry Daniel Shields 1997 Irrevocable Educational Trust, European Micro Holdings, Inc. and SunTrust Bank, Nashville, N.A., as Trustee dated January 31, 1998	Incorporated by reference as Exhibit No. 10.08 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.08	Executive Employment Agreement between John B. Gallagher and European Micro Holdings, Inc. effective as of January 1, 1998	Incorporated by reference as Exhibit No. 10.09 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.09	Executive Employment Agreement between Harry D. Shields and European Micro Holdings, Inc. effective as of January 1, 1998	Incorporated by reference as Exhibit No. 10.10 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.10		

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- |       |   |  |
|-------|---|--|
|       | Contract of Employment Agreement between Laurence Gilbert and European Micro UK dated March 14, 1998  | Incorporated by reference as Exhibit No. 10.11 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.11 | Subscription Agreement by and between John B. Gallagher, Harry D. Shields, Thomas H. Minkoff, Trustee of the Gallagher Family Trust, Robert H. True and Stuart S. Southard, Trustees of the Henry Daniel Shields 1997 Irrevocable Educational Trust, European Micro Holdings, Inc. effective as of January 31, 1998 | Incorporated by reference as Exhibit No. 10.13 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.12 | Administrative Services Contract by and between European Micro Holdings, Inc. and European Micro Plc effective as of January 1, 1998  | Incorporated by reference as Exhibit No. 10.14 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |
| 10.13 | Escrow Agreement between European Micro Holdings, Inc., Tarpon Scurry Investments, Inc. and The Chase Manhattan dated as of March 24, 1998  | Incorporated by reference as Exhibit No. 10.15 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998. |



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<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.14	Form of Indemnification Agreements with officers and directors	Incorporated by reference as Exhibit No. 10.16 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.15	Form of Transfer Agent Agreement with Chase Mellon Stockholder Services, L.L.C.	Incorporated by reference as Exhibit No. 10.17 to the Company's Registration Statement on Form S-1/A filed on March 6, 1998.
10.16	Form of Credit Agreement by and between European Micro UK and National Westminster Bank Plc	Incorporated by reference as Exhibit No. 10.17 to the Company's Annual Report on Form 10-KSB filed on September 28, 1998.
10.17	Consulting Contract dated September 10, 1998 by and between European Micro Holdings, Inc. and The Equity Group	Incorporated by reference as Exhibit 10.19 to the Company's Quarterly Report on Form 10-QSB filed on November 13, 1998.
10.18	Employment Agreement dated July 1, 1999 between John B. Gallagher and American Micro	Incorporated by reference as Exhibit 10.21 to the Company's Annual Report on Form 10-KSB filed on September 28, 1999.
10.19	Revolving Loan Agreement dated October 5, 2000 between American Micro and SouthTrust Bank re: Line of Credit to American Micro	Incorporated by reference as Exhibit 10.19 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.20	First Amendment to Loan Agreement dated October 5, 2000 among the Company, American Micro, Nor'Easter and SouthTrust Bank, N.A. re: Term Loan to the Company	Incorporated by reference as Exhibit 10.20 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.21	Revolving Loan Agreement dated October 5, 2000 between Nor'Easter and SouthTrust Bank re: Line of Credit to Nor'Easter	Incorporated by reference as Exhibit 10.21 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.22	Loan Agreement dated October 28, 1999 among the Company, American Micro, Nor'Easter and SouthTrust Bank, N.A. re: Term Loan to the Company	Incorporated by reference as Exhibit 10.23 to the Company's Quarterly Report on Form 10-QSB filed on November 15, 1999.
10.23	Security Agreement dated October 5, 2000 between Nor'Easter and SouthTrust Bank	Incorporated by reference as Exhibit 10.23 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.24		

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	Security Agreement dated October 5, 2000 between American Micro and SouthTrust Bank	Incorporated by reference as Exhibit 10.24 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.25	Line of Credit Note given by Nor'Easter to SouthTrust Bank	Incorporated by reference as Exhibit 10.25 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.26	Line of Credit Note given by American Micro to SouthTrust Bank	Incorporated by reference as Exhibit 10.26 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.27	Unconditional Guaranty given by Harry Shields to SouthTrust Bank Re: American Micro	Incorporated by reference as Exhibit 10.27 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.

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<b>Exhibit No.</b>	<b>Description</b>	<b>Location</b>
10.28	Unconditional Guaranty given by John Gallagher to SouthTrust Bank Re: American Micro	Incorporated by reference as Exhibit 10.28 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.29	Amended and Restated Unlimited Guaranty Agreement dated October 5, 2000 between Harry Shields and SouthTrust Bank	Incorporated by reference as Exhibit 10.29 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.30	Amended and Restated Unlimited Guaranty Agreement dated October 5, 2000 between John Gallagher and SouthTrust Bank	Incorporated by reference as Exhibit 10.30 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.31	Unconditional Guaranty given by John Gallagher to SouthTrust Bank Re: Nor'Easter	Incorporated by reference as Exhibit 10.31 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.32	Unconditional Guaranty given by Harry Shields to SouthTrust Bank Re: Nor'Easter	Incorporated by reference as Exhibit 10.32 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.33	Specific Agreement for the Provision of Professional Services dated as of March 17, 2000 between the Company and Cap Gemini UK Plc	Incorporated by reference as Exhibit 10.25 to the Company's Quarterly Report on Form 10-QSB filed on May 15, 2000.
10.34	Equity Line of Credit Agreement dated as of August 24, 2000, between the Company and Spinneret Financial System, Ltd.	Incorporated by reference as Exhibit 10.34 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.35	Registration Rights Agreement dated as of August 24, 2000, between the Company and Spinneret Financial System, Ltd.	Incorporated by reference as Exhibit 10.35 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.36	Warrant to Purchase Common Stock dated as of August 24, 2000, given by the Company to Spinneret Financial System, Ltd.	Incorporated by reference as Exhibit 10.36 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.37	Warrant to Purchase Common Stock dated as of August 24, 2000, given by the Company to the May Davis Group, Inc.	Incorporated by reference as Exhibit 10.37 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
10.38	Registration Rights Agreement dated as of August 24, 2000, between the Company and the May Davis Group, Inc.	Incorporated by reference as Exhibit 10.38 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.

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10.39	Placement Agent Agreement dated as of August 24, 2000, between the Company and the May Davis Group, Inc.	Incorporated by reference as Exhibit 10.39 to the Company's Annual Report on Form 10-KSB filed on October 11, 2000.
14.01	Code of Ethics	Incorporated by reference as Exhibit 14.01 to the Company's Annual Report on Form 10-KSB filed on October 12, 2006.

(b) Reports on Form 8-K.

None.

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**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.****AUDIT FEE**

The aggregate fees for each of the last two fiscal years for professional services rendered by the principal accountant for our audit of annual financial statements and review of financial statements included in our Form 10-KSB and 10-QSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were:

2007	\$	11,000
2006	\$	11,000

**ALL OTHER FEES**

The aggregate fees in each of the last two fiscal years for the products and services provided by the principal accountant other than the services reported in the above paragraph were:

2007	\$	-
2006	\$	-

**SIGNATURES**

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: October 10, 2007.

**EUROPEAN MICRO HOLDINGS, INC.**

By: /s/ John B. Gallagher

\_\_\_\_\_  
John B. Gallagher  
Co-President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>SIGNATURE</b>	<b>TITLE</b>	<b>DATE</b>
<u>/s/ Harry D. Shields</u> Harry D. Shields	Co-Chairman; Co-President (Principal Executive Officer); Director	October 10, 2007
<u>/s/ John B. Gallagher</u> John B. Gallagher	Co-Chairman; Co-President (Principal Executive Officer); Director	October 10, 2007

*/s/ Jay P. Nash*

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Jay P. Nash

Chief Financial Officer and  
Controller (Principal Financial  
Officer and Controller)

October 10, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of  
European Micro Holdings, Inc. and Subsidiaries:

We have audited the accompanying consolidated statement of net assets in liquidation of European Micro Holdings, Inc. and Subsidiaries (the "Company") as of June 30, 2007 and the related consolidated statements of changes in net assets and cash flows for the years ended June 30, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the stockholders of the Company approved a plan of liquidation on July 1, 2001, and the Company commenced liquidation shortly thereafter. As a result, the Company has changed its basis of accounting for periods subsequent to June 30, 2001 from the going-concern basis to a liquidation basis.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of European Micro Holdings, Inc. and Subsidiaries as of June 30, 2007, and the results of their operations and their cash flows for the years ended June 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America applied on the bases described in the preceding paragraph.

WEINBERG & COMPANY, P.A.

Boca Raton, Florida  
October 4, 2007

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**European Micro Holdings, Inc. and Subsidiaries****Consolidated Statement of Net Assets in Liquidation  
(Liquidation Basis)  
(In thousands)**

	<b>June 30, 2007</b>
<b>ASSETS</b>	
<b>ASSETS:</b>	
Cash	\$ -
<b>TOTAL ASSETS</b>	<b>\$ -</b>
<b>LIABILITIES</b>	
<b>LIABILITIES:</b>	
Accrued expenses and other liabilities	\$ 19
Due to related parties	79
<b>TOTAL LIABILITIES</b>	<b>\$ 98</b>
<b>COMMITMENT AND CONTINGENCIES</b>	
<b>DEFICIENCY IN NET ASSETS AVAILABLE IN LIQUIDATION</b>	<b>\$ (98)</b>

See accompanying notes to consolidated financial statements.

**European Micro Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Changes in Net Assets in Liquidation for the years ended  
June 30, 2007 and 2006  
(Liquidation Basis)  
(In thousands)**

	2007	2006
<b>SALES:</b>		
Net sales	\$ -	\$ -
<b>COST OF GOODS SOLD:</b>		
Cost of goods sold	-	-
<b>GROSS PROFIT</b>		
	-	-
<b>OPERATING EXPENSES:</b>		
Selling, general and administrative expenses	(51)	(62)
<b>LOSS FROM OPERATIONS</b>		
	(51)	(62)
<b>OTHER INCOME</b>		
Interest Income	-	-
<b>TOTAL OTHER INCOME</b>		
	-	-
<b>NET LOSS</b>		
	(51)	(62)
<b>NET ASSETS (DEFICIENCY) BEGINNING OF PERIOD</b>		
	(47)	216
<b>LESS DISTRIBUTION TO COMMON SHAREHOLDERS</b>		
	-	(200)
<b>EFFECT OF FOREIGN EXCHANGE RATES</b>		
	-	(1)
<b>DEFICIENCY IN NET ASSETS AVAILABLE IN LIQUIDATION END OF PERIOD</b>		
	\$ (98)	\$ (47)

See accompanying notes to consolidated financial statements.

**European Micro Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**For the years ended June 30, 2007 and 2006**  
**(Liquidation Basis)**  
(In thousands)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (51)	\$ (62)
<i>Changes in assets and liabilities</i>		
Income taxes receivable	-	22
Accrued expenses and other liabilities	(50)	(161)
Due to related parties	79	-
<i>Net cash used in operating activities</i>	(22)	(201)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Distribution to common shareholders	-	(200)
<i>Net cash used in financing activities</i>	-	(200)
Effect of foreign exchange rates	-	(1)
<b>NET DECREASE IN CASH</b>	(22)	(402)
Cash at beginning of year	22	424
<b>CASH AT END OF YEAR</b>	\$ -	\$ 22

See accompanying notes to consolidated financial statements.

**European Micro Holdings, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements  
As of June 30, 2007**

**Note 1 Summary of Significant Accounting Policies and Organization**

**(A) Organization**

On December 23, 1997, European Micro Holdings, Inc. was incorporated, in the state of Nevada, and 4,000,000 shares of common stock with a par value of \$0.01 per share were issued. The 4,000,000 shares were issued to the shareholders of European Micro Plc in exchange for the entire issued share capital of that company on January 31, 1998. European Micro Holdings, Inc. and its subsidiaries are hereinafter referred to as “European Micro” or “the Company.”

In July 2001, management approved a plan for the liquidation and eventual sale or dissolution of the Company. Accordingly, we have been engaged in an ongoing orderly liquidation of our assets. With the exception of accounting and other professional and administrative expenses, the Company did not have any operations for the years June 30, 2007 and 2006. Management is currently marketing the Company for sale. As of September 30, 2007, liquidation is almost complete with the only asset being cash in the approximate amount of \$598.

The Company had suffered operating losses in fiscal 2000 and 2001. Ongoing legal costs associated with the litigation related to Big Blue Europe, the costs associated with the Company’s electronic commerce strategy, increases in general overhead costs, and increased interest expense due primarily to increased borrowings, coupled with decreasing sales volumes and gross profit margins, have negatively impacted operating results. These factors resulted in the noncompliance of the financial covenants of the Company’s loan agreements. Due to these operating results and the covenant violations, the lender on the American Micro and Nor’Easter lines of credit and the European Micro Holdings, Inc. term loan demanded repayment of the Nor’Easter line of credit before June 15, 2001 and the American Micro line of credit and the European Micro Holdings term loan by August 15, 2001. As a result, during April 2001, the Company decided to cease operations at Nor’Easter and during June 2001, the Company decided to cease operations at Colchester. The Nor’Easter line of credit was repaid on June 15, 2001. The American Micro line of credit was repaid during May 2001. The European Micro Holdings term loan was repaid on August 20, 2001.

The contingent earn-out payment of the American Micro acquisition relating to two times the after tax earnings for calendar year 2000 of approximately \$1,839,000 was due to the former American Micro shareholders. As a result of financial restrictions imposed by the lender on the American Micro and Nor’Easter lines of credit, on February 20, 2001, the Company delivered two Secured Promissory Notes (“Notes”) to the former American Micro shareholders in the original amount of \$823,712 each. The Notes called for monthly principal payments of \$50,000, plus interest at 8% commencing April 1, 2001, subject to financial covenant restrictions. Each Note was due in full within (30) days of the satisfaction of the American Micro and Nor’Easter lines of credit. On July 15, 2001, the Company notified the former American Micro shareholders that it would be unable to meet its obligations under each Note. After the repayment of the American Micro and Nor’Easter lines of credit along with the repayment of the European Micro Holdings, Inc. term loan, the Company was no longer restricted from performing its obligations to the American Micro shareholders. On August 22, 2001 the former American Micro shareholders demanded full payment of the Notes. On September 1, 2001 the Notes to the former American Micro shareholders were settled by transfer of all American Micro shares from European Micro Holdings to the former American Micro shareholders.

European Micro Holdings, Inc. and Subsidiaries

**Notes to the Consolidated Financial Statements**  
**As of June 30, 2007** *(continued)*

**Summary of Significant Accounting Policies and Organization** *(continued)*

Another factor that negatively impacted the Company's liquidity was the terms of the borrowing arrangements of European Micro UK. European Micro UK's borrowing capacity was subject to termination by the lender at lender's sole discretion and during August, 2001 the lender on the European Micro UK's line of credit demanded repayment. European Micro UK was able to repay the line of credit with a loan from a significant shareholder. This loan to a significant shareholder was completely repaid on April 3, 2003.

Hence, with the complete termination of all lines of credit available to the Company, the closures of Nor'easter and Colchester and the loss of American Micro, the Company had no alternative but to proceed with a complete liquidation of all assets.

**(B) Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned inactive subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

**(C) Basis of Presentation**

The consolidated financial statements are expressed in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America, under the liquidation basis of accounting since July 1, 2001.

**(D) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ significantly from these estimates.

**(E) Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**(F) Fair Value of Financial Instruments**

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash, accrued expenses and other current liabilities and due to related parties approximate fair value because of their short maturities.

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European Micro Holdings, Inc. and Subsidiaries

**Notes to the Consolidated Financial Statements**  
**As of June 30, 2007** *(continued)*

**Summary of Significant Accounting Policies and Organization** *(continued)*

**(G) Loss Per Common Share**

Since the adoption of the liquidation basis of accounting on July 1, 2001, loss per share was not computed as such amounts are not deemed to be meaningful.

**(H) Adoption of New Accounting Policy**

*Effects of Prior Year Misstatements*

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 requires that registrants quantify errors using both a balance sheet (iron curtain) approach and an income statement (rollover) approach then evaluate whether either approach results in a misstated amount that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company has adopted the bulletin during its fiscal year ending June 30, 2007. The adoption did not have a material effect on results of operations, financial position, or cash flows.

*Accounting for Income Taxes*

Effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). —*an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. At the date of adoption, and as of June 30, 2007, the Company does not have a liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2002. During the periods open to examination, the Company has net operating loss and tax credit carry forwards for U.S. federal and state tax purposes that have attributes from closed periods. Since these net operating losses and tax credit carry forwards may be utilized in future periods, they remain subject to examination.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of June 30, 2007, the Company has no accrued interest or penalties related to uncertain tax positions.

**European Micro Holdings, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**  
**As of June 30, 2007** *(continued)*

**Summary of Significant Accounting Policies and Organization** *(continued)*

*Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued in fiscal years beginning after November 15, 2007 and to interim periods within those fiscal years. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 157 will have on its results of operations, financial position, or cash flows.

*Fair Value Option for Financial Assets and Financial Liabilities*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("Statement 159"). Statement 159 allows companies to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value (the "fair value option"). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, all unrealized gains or losses in fair value for that instrument shall be reported in earnings at each subsequent reporting date. Statement 159 is effective for fiscal years that begin after November 15, 2007, which for us will be our fiscal 2008. We are currently evaluating the impact Statement 159 will have on our consolidated financial position, results of operations and cash flows.



**European Micro Holdings, Inc. and Subsidiaries****Notes to the Consolidated Financial Statements**  
*As of June 30, 2007(continued)***2****Taxes**

Provision has not been made for U.S. or additional foreign taxes on approximately \$3,672,000 at June 30, 2000, of undistributed earnings of foreign subsidiaries, as those earnings were intended to be permanently reinvested. The foreign subsidiaries incurred substantial losses in excess of undistributed earnings for the years ended June 30, 2005, 2004, 2003, 2002 and 2001, and as a result there are no longer any undistributed earnings from foreign subsidiaries that could be repatriated to the US.

A reconciliation between actual income taxes and amounts computed by applying the federal statutory rate of 34% to earnings before income taxes is summarized as follows (in thousands):

	<b>Years ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
US federal statutory rate on loss before income taxes	\$ (17)	\$ (20)
Change in valuation allowance	17	20
Income tax benefit	\$ -	\$ -

Sources of deferred tax assets are as follows (in thousands):

	<b>June 30, 2007</b>
<i>Deferred tax assets:</i>	
Property and equipment, principally due to differences in depreciation and amortization	\$ 1,236
Net operating loss carry forwards	1,921
Other	386
<b>Total gross deferred tax assets</b>	<b>3,543</b>
Valuation allowance	(3,543)
Net deferred tax assets	\$ -0-

The Company has U.S. federal net operating loss carryforwards of approximately \$4,300,000, which will begin to expire in 2018. The use of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The valuation allowance, which increased in fiscal year 2007 by \$17,000, has been provided for deferred tax assets as recoverability in future periods is not deemed to be more likely than not.

**European Micro Holdings, Inc. and Subsidiaries**

**Notes to the Consolidated Financial Statements**  
**As of June 30, 2007***(continued)*

**3 Related Party Information**

Due to related parties at June 30, 2007 consists of a note payable to Harry Shields in the amount of \$59,000 and a note payable to John Gallagher in the amount of \$20,000. Shields and Gallagher advanced funds to the company to pay administrative expenses. The notes are due on demand and do not accrue interest.

*Nature of related party relationships*

The entities listed above were related to the company in the following manner:

***Harry Shields***

Harry D. Shields is Co-Chairman, Co-President, a Director and shareholder (owning 32% of the outstanding shares) of European Micro Holdings, Inc.

***John B. Gallagher***

John B. Gallagher is Co-Chairman, Co-President, Director and shareholder (owning 35% of the outstanding shares) of European Micro Holdings, Inc. He was also the president of American Micro Computer Center and owns 50% of the outstanding shares of capital stock in that company.

**4 Stockholders' Equity, Stock Options and Incentive Plans**

**Employee Stock Purchase Plan**

In January 1998, European Micro Holdings, Inc. adopted the 1998 Employee Stock Purchase Plan (the "employee plan"). A total of 50,000 common shares have been reserved for issuance under the plan. The shares issued under the employee plan will be purchased at 85% of market value or such higher percentage (not in excess of 100%) as may be established by the employee plan committee. The employee plan shall remain in effect until terminated by an action of the Board. No shares had been issued as of June 30, 2007.

**Stock Incentive Plan**

In January 1998, European Micro Holdings, Inc. adopted the 1998 Stock Incentive Plan (the "Plan"). A total of 500,000 common shares have been reserved for issuance under the Plan. As of June 30, 2007 and 2006 there were no outstanding options to purchase common shares. The committee may grant to such participants as the committee may select options entitling the participants to purchase shares of common stock for the Company in such numbers, at such prices and on such terms and subject to such conditions, consistent with the terms of the Plan, as may be established by the committee. The Plan shall remain in effect until terminated by an action of the Board.